

# REPORT OF THE DIRECTORS

The directors submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2007.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 44 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2007 are set out in the consolidated income statement on page 94 of this annual report.

The directors declared an interim cash dividend of HK24.9 cents (equivalent to US3.186 cents) per share, totalling HK\$557,927,000 (equivalent to US\$71,388,000), which was paid on 21st September 2007.

The directors recommend the payment of a final cash dividend of HK30.6 cents (equivalent to US3.924 cents) per share and a special final cash dividend of HK17.9 cents (equivalent to US2.296 cents) per share, totalling HK\$1,088,767,000 (equivalent to US\$139,632,000), payable on or before 29th May 2008.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 169 of this annual report.

## RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 95 and 96 of this annual report.

Movements in the reserves of Company during the year are set out in note 21 to the consolidated financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$263,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 7 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are shown in note 20 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2007 calculated under Companies Act of Bermuda amounted to US\$826,713,000.

## BORROWINGS

Details of the borrowings of the Group are set out in note 22 to the consolidated financial statements.

## RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 3.20 and 35 to the consolidated financial statements.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Dr. WEI Jiafu<sup>2</sup> (*Chairman*)

Mr. CHEN Hongsheng<sup>1</sup>

Mr. LI Jianhong<sup>1</sup>

Mr. XU Lirong<sup>2</sup>

Ms. SUN Yueying<sup>1</sup>

Mr. XU Minjie<sup>1</sup> (*Vice Chairman and Managing Director*)

(appointed on 24th January 2007)

Dr. SUN Jiakang<sup>2</sup>

(re-designated from executive director to non-executive director and resigned as Vice Chairman and Managing Director with effect from 24th January 2007)

Dr. WONG Tin Yau, Kelvin<sup>1</sup>

Mr. WANG Zhi<sup>1</sup>

Mr. YIN Weiyu<sup>1</sup>

(appointed on 4th January 2008)

Mr. QIN Fuyan<sup>1</sup>

(resigned on 4th January 2008)

Dr. LI Kwok Po, David<sup>3</sup>

Mr. LIU Lit Man<sup>3</sup>

Mr. CHOW Kwong Fai, Edward<sup>3</sup>

Mr. Timothy George FRESHWATER<sup>3</sup>

<sup>1</sup> Executive Director

<sup>2</sup> Non-executive Director

<sup>3</sup> Independent Non-executive Director

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. YIN Weiyu retires at the forthcoming general meeting and, being eligible, offers himself for re-election.

In accordance with Clauses 87(1) and (2) of the Company's Bye-laws, Mr. LIU Lit Man has notified the Company that he will retire from office at the forthcoming annual general meeting and will not offer himself for re-election; and other directors to retire from office by rotation at the forthcoming annual general meeting are Mr. CHEN Hongsheng, Mr. XU Lirong, Dr. SUN Jiakang, Mr. WANG Zhi and Mr. Timothy George FRESHWATER who, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 62 to 68 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Mr. XU Minjie has entered into a service agreement with COSCO Pacific Management Company Limited ("COSCO Pacific Management"), a wholly owned subsidiary of the Company, on 24th January 2007 for a term of three years commencing from 24th January 2007. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than three months' notice in writing to the other party pursuant to the terms of the service agreement.

Dr. WONG Tin Yau, Kelvin has a service agreement with the Company commencing from 22nd July 1996. The agreement is terminable by either party giving to the other party not less than one month's prior notice in writing.

Mr. WANG Zhi has an employment contract with COSCO Pacific Management commencing from 1st April 2001. Such contract is terminable by either party by giving to the other party not less than one month's prior notice in writing.

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Mr. YIN Weiyu has an employment contract with COSCO Pacific Management commencing from 9th October 2006. Such contract is terminable by either party by giving to the other party not less than one month's prior notice in writing.

Save as disclosed above, none of the directors has a service contract or service agreement with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### SHARE OPTIONS

At a special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme").

On 5th December 2005, the shareholders of the Company approved the amendments to the 2003 Share Option Scheme at a special general meeting. The definitions of "Participant" and "relevant company" in paragraph 1 of the 2003 Share Option Scheme were amended by deleting all references to COSCO (Hong Kong) Group Limited and replacing them by China COSCO Holdings Company Limited ("China COSCO"), an intermediate holding company of the Company, and paragraph 8(e) of the 2003 Share Option Scheme was changed to allow a grantee who ceases to be an employee or an executive director of the relevant company (as defined in the 2003 Share Option Scheme) by reason of voluntary resignation from his employment, directorship, secondment or nomination to exercise the option up to his entitlement at the date of cessation within a period of three months following the date of such cessation pursuant to paragraph 7.3(a) of the 2003 Share Option Scheme. These amendments came into effect on 28th February 2006 after the approval of the shareholders of China COSCO at the general meeting held on the same date.

The following is a summary of the principal terms of these share option schemes:

#### (i) 1994 Share Option Scheme

The 1994 Share Option Scheme was designed to motivate the employees to enhance their performance and contribution to the Group. Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein.

Under the 1994 Share Option Scheme, the maximum number of Shares in respect of which options may be granted will not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total Shares in issue or to be issued under the 1994 Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company (the "Board") in its absolute discretion, save that the exercise period shall not be more than ten years from the date on which the option is granted. The consideration on acceptance of an offer of the grant of an option is HK\$1.00 payable within 28 days from the offer date. The full amount of the subscription price for the Shares must be paid upon exercise of an option.

The exercise price of an option is determined by the Board and will not be less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the share option or the nominal value of the Shares, whichever is higher.

The 1994 Share Option Scheme was terminated on 23rd May 2003. No further options shall thereafter be offered under the 1994 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

All options granted under the 1994 Share Option Scheme had been expired on 19th May 2007 and there was no outstanding share option yet to be exercised under the 1994 Share Option Scheme as at 31st December 2007.

## **(ii) 2003 Share Option Scheme**

The 2003 Share Option Scheme is designed to attract, retain and motivate talented participants (the "Participants" or a "Participant") (as defined in note 1 below) to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time.

Under the 2003 Share Option Scheme, the Board may, at its discretion, invite any Participants to take up options. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant on the Group's business, the length of service of the Participant with the Group or the length of business relationship the Participant has established with the Group and such other factors as the Board may at its discretion consider appropriate.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the adoption of the 2003 Share Option Scheme (the "Scheme Mandate Limit") unless the Company seeks approval of its shareholders in general meeting to refresh the Scheme Mandate Limit, such that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme or any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2003 Share Option Scheme and any other share option schemes of the Company (including the 1994 Share Option Scheme) shall not exceed 30% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

As at the date of this report, a total of 87,251,229 Shares (representing approximately 3.89% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the 2003 Share Option Scheme and a total of 43,163,000 Shares (representing approximately 1.92% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

The maximum entitlement for any one Participant (including both exercised, cancelled and outstanding options) in any twelve months' period shall not exceed 1% of the total number of Shares in issue.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable on acceptance of an offer of the grant of an option is HK\$1.00. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a Share.

The 2003 Share Option Scheme will expire on 22nd May 2013.

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### Notes:

- (1) As defined in the 2003 Share Option Scheme (as amended), "Participants" include:
- (i) any employee of the Group (including any executive director of the Group);
  - (ii) any management of China COSCO, or China Ocean Shipping (Group) Company, the Company's parent company; and
  - (iii) any person seconded or nominated by the Group to represent the Group's interest in any of the Group's associated companies or jointly controlled entities (as defined in note 2 below), or any other company or organisation.

As to whether a particular person falls within the definition of Participants, it shall be determined by the Board in its absolute discretion.

- (2) Under the 2003 Share Option Scheme, associated companies and jointly controlled entities refer to those companies and/or enterprises which have defined and/or disclosed as associates and/or associated companies and joint ventures and/or jointly controlled entities of the Company in the latest audited financial statements of the Company.

### (iii) Movements of options under 1994 Share Option Scheme

Movements of the options, which have been granted under the 1994 Share Option Scheme, during the year are set out below:

| Category                             | Exercise price<br>HK\$ | Number of share options         |                           |                                   | % of total issued share capital of the Company | Note          |
|--------------------------------------|------------------------|---------------------------------|---------------------------|-----------------------------------|--|---------------|
|                                      |                        | Outstanding at 1st January 2007 | Exercised during the year | Outstanding at 31st December 2007 |  |               |
| <b>Director</b>                      |                        |                                 |                           |                                   |  |               |
| Dr. WONG Tin Yau, Kelvin             | 8.80                   | 300,000                         | (300,000)                 | –                                 | –  | (1), (2), (3) |
| <b>Continuous contract employees</b> |                        |                                 |                           |                                   |  |               |
|                                      | 8.80                   | 22,000                          | (22,000)                  | –                                 | –  | (1), (3)      |
|                                      |                        | 322,000                         | (322,000)                 | –                                 |  |               |

### Notes:

- (1) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 19th May 2007), subject to the following conditions:
- (i) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.
  - (ii) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.
- (2) These share options represent personal interest held by the director as beneficial owner.
- (3) The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$20.09.
- (4) All options granted under the 1994 Share Option Scheme had been expired on 19th May 2007 and there was no outstanding share option yet to be exercised under the 1994 Share Option Scheme as at 31st December 2007.

#### (iv) Movements of options under 2003 Share Option Scheme

Movements of the options, which have been granted under the 2003 Share Option Scheme, during the year are set out below:

| Category                               | Exercise price HK\$ | Number of share options         |                         |                           |                        | Outstanding at 31st December 2007 | % of total issued share capital | Exercisable period      | Note          |
|--|---------------------|---------------------------------|-------------------------|---------------------------|------------------------|-----------------------------------|---------------------------------|-------------------------|---------------|
|  |                     | Outstanding at 1st January 2007 | Granted during the year | Exercised during the year | Lapsed during the year |                                   |                                 |                         |               |
| <b>Directors</b>                       |                     |                                 |                         |                           |                        |                                   |                                 |                         |               |
| Dr. WEI Jiafu                          | 9.54                | 400,000                         | -                       | (400,000)                 | -                      | -                                 | -                               | 30.10.2003 - 29.10.2013 | (1), (4), (5) |
|  | 13.75               | 1,000,000                       | -                       | -                         | -                      | 1,000,000                         | 0.045%                          | 3.12.2004 - 2.12.2014   | (2), (4)      |
| Mr. CHEN Hongsheng                     | 9.54                | 300,000                         | -                       | (300,000)                 | -                      | -                                 | -                               | 28.10.2003 - 27.10.2013 | (1), (4), (5) |
|  | 13.75               | 1,000,000                       | -                       | -                         | -                      | 1,000,000                         | 0.045%                          | 3.12.2004 - 2.12.2014   | (2), (4)      |
| Mr. LI Jianhong                        | 9.54                | 300,000                         | -                       | (300,000)                 | -                      | -                                 | -                               | 29.10.2003 - 28.10.2013 | (1), (4), (5) |
|  | 13.75               | 1,000,000                       | -                       | -                         | -                      | 1,000,000                         | 0.045%                          | 2.12.2004 - 1.12.2014   | (2), (4)      |
| Ms. SUN Yueying                        | 9.54                | 300,000                         | -                       | (300,000)                 | -                      | -                                 | -                               | 29.10.2003 - 28.10.2013 | (1), (4), (5) |
|  | 13.75               | 1,000,000                       | -                       | -                         | -                      | 1,000,000                         | 0.045%                          | 3.12.2004 - 2.12.2014   | (2), (4)      |
| Mr. XU Minjie                          | 19.30               | -                               | 800,000                 | -                         | -                      | 800,000                           | 0.036%                          | 19.4.2007 - 18.4.2017   | (3), (4)      |
| Dr. SUN Jiakang                        | 13.75               | 1,000,000                       | -                       | (300,000)                 | -                      | 700,000                           | 0.031%                          | 1.12.2004 - 30.11.2014  | (2), (4), (5) |
| Dr. WONG Tin Yau, Kelvin               | 9.54                | 800,000                         | -                       | -                         | -                      | 800,000                           | 0.036%                          | 28.10.2003 - 27.10.2013 | (1), (4)      |
|  | 13.75               | 1,000,000                       | -                       | -                         | -                      | 1,000,000                         | 0.045%                          | 2.12.2004 - 1.12.2014   | (2), (4)      |
|  | 19.30               | -                               | 500,000                 | -                         | -                      | 500,000                           | 0.022%                          | 18.4.2007 - 17.4.2017   | (3), (4)      |
| Mr. WANG Zhi                           | 13.75               | 700,000                         | -                       | (150,000)                 | -                      | 550,000                           | 0.025%                          | 29.11.2004 - 28.11.2014 | (2), (4), (5) |
|  | 19.30               | -                               | 500,000                 | -                         | -                      | 500,000                           | 0.022%                          | 18.4.2007 - 17.4.2017   | (3), (4)      |
| Mr. QIN Fuyan*                         | 13.75               | 200,000                         | -                       | -                         | -                      | 200,000                           | 0.009%                          | 29.11.2004 - 28.11.2014 | (2), (4)      |
|  | 19.30               | -                               | 500,000                 | -                         | -                      | 500,000                           | 0.022%                          | 19.4.2007 - 18.4.2017   | (3), (4)      |
|  |                     | 9,000,000                       | 2,300,000               | (1,750,000)               | -                      | 9,550,000                         |                                 |                         |               |
| <b>Continuous contract employees**</b> | 9.54                | 3,978,000                       | -                       | (2,253,000)               | -                      | 1,725,000                         | 0.077%                          | (refer to note 1)       | (1), (5)      |
|  | 13.75               | 20,198,000                      | -                       | (6,156,000)               | -                      | 14,042,000                        | 0.626%                          | (refer to note 2)       | (2), (5)      |
|  | 19.30               | -                               | 15,300,000              | (530,000)                 | -                      | 14,770,000                        | 0.658%                          | (refer to note 3)       | (3), (5)      |
| <b>Others</b>                          | 9.54                | 1,000,000                       | -                       | (950,000)                 | -                      | 50,000                            | 0.002%                          | (refer to note 1)       | (1), (5)      |
|  | 13.75               | 7,360,000                       | -                       | (4,236,000)               | -                      | 3,124,000                         | 0.139%                          | (refer to note 2)       | (2), (5)      |
|  |                     | 32,536,000                      | 15,300,000              | (14,125,000)              | -                      | 33,711,000                        |                                 |                         |               |
|  |                     | 41,536,000                      | 17,600,000              | (15,875,000)              | -                      | 43,261,000                        |                                 |                         |               |

\* Mr. QIN Fuyan resigned as a director of the Company on 4th January 2008.

\*\* Including share options of Mr. YIN Weiyu who has been appointed as a director of the Company on 4th January 2008.

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### Notes:

- (1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK\$9.54. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options of the grantees was from 28th October 2003 to 6th November 2003.
- (2) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK\$13.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options of the grantees was from 25th November 2004 to 16th December 2004.
- (3) The share options were granted during the period from 17th April 2007 to 19th April 2007 under the 2003 Share Option Scheme at an exercise price of HK\$19.30, which represents the average closing prices of the shares of the Company as dated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered. The closing prices of the shares of the Company immediately before the dates on which the options were granted were in the range of HK\$19.44 to HK\$19.92. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options of the grantees was from 17th April 2007 to 19th April 2007.

The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for share option) to calculate the value of share options. The fair value of the options was approximately HK\$4.97 at the dates of grant with assumptions as follows:

- (i) Interest rate of 10-year Exchange Fund Notes of 4.08% per annum as the risk-free interest rate;
- (ii) Expected life of 6 years (by reference to the pattern of the options exercised by the grantees in prior years);
- (iii) Expected dividend yield of 3.84% (being the average dividend yield of the Company for the previous five years); and
- (iv) Expected volatility of 33.59% (being the historical volatility of the closing price of the Company's shares from 22nd March 2006 to 23rd March 2007).

The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

- (4) These options represent personal interests held by the relevant directors as beneficial owners.
- (5) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK\$20.67.
- (6) During the year, no share options were cancelled under the 2003 Share Option Scheme.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2007, the interests of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### (a) Long positions in the shares of the Company

| Name of director                 | Capacity         | Nature of interest | Number of ordinary shares held | % of total issued share capital of the Company |
|----------------------------------|------------------|--------------------|--------------------------------|--|
| Dr. LI Kwok Po, David            | Beneficial owner | Personal           | 258,000                        | 0.011%   |
| Mr. Timothy George<br>FRESHWATER | Beneficial owner | Personal           | 30,000                         | 0.001%   |

### (b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted to certain directors of the Company pursuant to the 1994 Share Option Scheme and the 2003 Share Option Scheme. Details of the directors' interests in share options granted by the Company are set out under the section headed "Share Options" of this report.

### (c) Long positions in the shares of associated corporations

| Name of associated corporation       | Name of director            | Capacity         | Nature of interest | Number of H shares held | % of total issued H share capital of the relevant associated corporation |
|--------------------------------------|-----------------------------|------------------|--------------------|-------------------------|--|
| China COSCO Holdings Company Limited | Dr. WONG Tin Yau,<br>Kelvin | Beneficial owner | Personal           | 573,875                 | 0.022%   |

  

| Name of associated corporation        | Name of director | Capacity         | Nature of interest | Number of shares held | % of total issued share capital of the relevant associated corporation |
|---------------------------------------|------------------|------------------|--------------------|-----------------------|--|
| COSCO Corporation (Singapore) Limited | Dr. WEI Jiafu    | Beneficial owner | Personal           | 1,900,000             | 0.085%   |
|                                       | Mr. LI Jianhong  | Beneficial owner | Personal           | 1,300,000             | 0.058%   |
|                                       | Ms. SUN Yueying  | Beneficial owner | Personal           | 1,400,000             | 0.063%   |

Note:

Adjustments were made to the number of shares held by these directors as a result of the approval of the sub-division of every 1 ordinary share of S\$0.20 each divided into 2 ordinary shares of S\$0.10 each by the shareholders of COSCO Corporation (Singapore) Limited on 17th January 2006.

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### (d) Long positions in underlying shares of equity derivatives of associated corporations

- (i) Movements of the share options granted to the directors of the Company by associated corporations during the year are set out below:

| Name of associated corporation       | Name of director         | Capacity         | Nature of interest | Exercise price HK\$ | Number of share options         |                         |                           | Outstanding at 31st December 2007 | % of total issued share capital of the relevant associated corporation | Note |
|--------------------------------------|--------------------------|------------------|--------------------|---------------------|---------------------------------|-------------------------|---------------------------|-----------------------------------|--|------|
|                                      |                          |                  |                    |                     | Outstanding at 1st January 2007 | Granted during the year | Exercised during the year |                                   |  |      |
| COSCO International Holdings Limited | Dr. WEI Jiafu            | Beneficial owner | Personal           | 0.57                | 1,800,000                       | -                       | -                         | 1,800,000                         | 0.122%   | (1)  |
|                                      |                          |                  |                    | 1.37                | 1,200,000                       | -                       | -                         | 1,200,000                         | 0.081%   | (2)  |
|                                      | Mr. LI Jianhong          | Beneficial owner | Personal           | 0.57                | 1,800,000                       | -                       | -                         | 1,800,000                         | 0.122%   | (1)  |
|                                      |                          |                  |                    | 1.37                | 1,200,000                       | -                       | -                         | 1,200,000                         | 0.081%   | (2)  |
|                                      | Dr. SUN Jiakang          | Beneficial owner | Personal           | 0.57                | 900,000                         | -                       | (300,000)                 | 600,000                           | 0.041%   | (1)  |
|                                      |                          |                  |                    | 1.37                | 800,000                         | -                       | -                         | 800,000                           | 0.054%   | (2)  |
|                                      | Dr. WONG Tin Yau, Kelvin | Beneficial owner | Personal           | 0.57                | 800,000                         | -                       | -                         | 800,000                           | 0.054%   | (1)  |
|                                      |                          |                  |                    | 1.37                | 500,000                         | -                       | -                         | 500,000                           | 0.034%   | (2)  |

Notes:

- (1) The share options were granted by COSCO International Holdings Limited ("COSCO International"), an associated corporation of the Company and a company listed on the Stock Exchange, on 26th November 2003 pursuant to the share option scheme adopted by COSCO International on 17th May 2002 and amended by the shareholders of COSCO International at the special general meeting held on 5th May 2005 (the "Share Option Scheme of COSCO International"). The share options are exercisable at an exercise price of HK\$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.
- (2) The share options were granted by COSCO International on 2nd December 2004 pursuant to the Share Option Scheme of COSCO International. The share options are exercisable at an exercise price of HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- (3) During the year, no share options mentioned above were lapsed or cancelled.

| Name of associated corporation        | Name of director | Capacity         | Nature of interest | Exercise price S\$ | Number of share options         |                         |                           | Outstanding at 31st December 2007 | % of total issued share capital of the relevant associated corporation | Note |
|---------------------------------------|------------------|------------------|--------------------|--------------------|---------------------------------|-------------------------|---------------------------|-----------------------------------|--|------|
|                                       |                  |                  |                    |                    | Outstanding at 1st January 2007 | Granted during the year | Exercised during the year |                                   |  |      |
| COSCO Corporation (Singapore) Limited | Dr. WEI Jiafu    | Beneficial owner | Personal           | 1.23               | 1,100,000                       | -                       | -                         | 1,100,000                         | 0.049%   | (2)  |
|                                       | Mr. LI Jianhong  | Beneficial owner | Personal           | 1.23               | 700,000                         | -                       | -                         | 700,000                           | 0.031%   | (2)  |
|                                       | Mr. XU Lirong    | Beneficial owner | Personal           | 0.807              | 400,000                         | -                       | (400,000)                 | -                                 | -  | (1)  |
|                                       | Ms. SUN Yueying  | Beneficial owner | Personal           | 1.23               | 700,000                         | -                       | -                         | 700,000                           | 0.031%   | (2)  |

Notes:

- (1) The share options were granted by COSCO Corporation (Singapore) Limited ("COSCO Corporation (Singapore)"), an associated corporation of the Company and a company listed on the Singapore Exchange Securities Trading Limited on 6th April 2005 and are exercisable at any time between 6th April 2007 and 5th April 2010. Adjustments were made to the exercise price and the number of share options held by the grantees as the sub-division of every 1 ordinary share of S\$0.20 each divided into 2 ordinary shares of S\$0.10 each was approved by the shareholders of COSCO Corporation (Singapore) on 17th January 2006. In this respect, the exercise price was adjusted from S\$1.614 to S\$0.807 and the number of share options of Mr. XU Lirong was adjusted from 200,000 to 400,000 with effect from 17th January 2006.
- (2) The share options were granted by COSCO Corporation (Singapore) on 21st February 2006 and are exercisable at any time between 21st February 2007 and 20th February 2011.
- (3) During the year, no share options mentioned above were lapsed or cancelled.

## REPORT OF THE DIRECTORS

- (ii) Movements of the share appreciation rights granted to the directors of the Company by an associated corporation during the year are set out below:

| Name of associated corporation       | Name of director   | Capacity         | Nature of interest | Exercise price HK\$ | Number of units of share appreciation rights |                         |                           |                                   | % of total issued H share capital of the relevant associated corporation | Note |
|--------------------------------------|--------------------|------------------|--------------------|---------------------|--|-------------------------|---------------------------|-----------------------------------|--|------|
|                                      |                    |                  |                    |                     | Outstanding at 1st January 2007              | Granted during the year | Exercised during the year | Outstanding at 31st December 2007 |  |      |
| China COSCO Holdings Company Limited | Dr. WEI Jiafu      | Beneficial owner | Personal           | 3.195               | 900,000                                      | -                       | (220,000)                 | 680,000                           | 0.026%   | (1)  |
|                                      |                    |                  |                    | 3.588               | 900,000                                      | -                       | -                         | 900,000                           | 0.035%   | (2)  |
|                                      |                    |                  |                    | 9.540               | -  | 880,000                 | -                         | 880,000                           | 0.034%   | (3)  |
|                                      | Mr. CHEN Hongsheng | Beneficial owner | Personal           | 3.195               | 700,000                                      | -                       | (100,000)                 | 600,000                           | 0.023%   | (1)  |
|                                      |                    |                  |                    | 3.588               | 700,000                                      | -                       | -                         | 700,000                           | 0.027%   | (2)  |
|                                      |                    |                  |                    | 9.540               | -  | 680,000                 | -                         | 680,000                           | 0.026%   | (3)  |
|                                      | Mr. LI Jianhong    | Beneficial owner | Personal           | 3.195               | 600,000                                      | -                       | (150,000)                 | 450,000                           | 0.017%   | (1)  |
|                                      |                    |                  |                    | 3.588               | 600,000                                      | -                       | -                         | 600,000                           | 0.023%   | (2)  |
|                                      |                    |                  |                    | 9.540               | -  | 580,000                 | -                         | 580,000                           | 0.022%   | (3)  |
|                                      | Mr. XU Lirong      | Beneficial owner | Personal           | 3.195               | 500,000                                      | -                       | (125,000)                 | 375,000                           | 0.015%   | (1)  |
|                                      |                    |                  |                    | 3.588               | 500,000                                      | -                       | -                         | 500,000                           | 0.019%   | (2)  |
|                                      |                    |                  |                    | 9.540               | -  | 580,000                 | -                         | 580,000                           | 0.022%   | (3)  |
|                                      | Ms. SUN Yueying    | Beneficial owner | Personal           | 3.195               | 600,000                                      | -                       | (100,000)                 | 500,000                           | 0.019%   | (1)  |
|                                      |                    |                  |                    | 3.588               | 600,000                                      | -                       | -                         | 600,000                           | 0.023%   | (2)  |
|                                      |                    |                  |                    | 9.540               | -  | 580,000                 | -                         | 580,000                           | 0.022%   | (3)  |
|                                      | Mr. XU Minjie      | Beneficial owner | Personal           | 3.195               | 100,000                                      | -                       | -                         | 100,000                           | 0.004%   | (1)  |
|                                      |                    |                  |                    | 3.588               | 90,000                                       | -                       | -                         | 90,000                            | 0.003%   | (2)  |
|                                      | Dr. SUN Jiakang    | Beneficial owner | Personal           | 3.195               | 500,000                                      | -                       | -                         | 500,000                           | 0.019%   | (1)  |
|                                      |                    |                  |                    | 3.588               | 500,000                                      | -                       | -                         | 500,000                           | 0.019%   | (2)  |
|                                      |                    |                  |                    | 9.540               | -  | 480,000                 | -                         | 480,000                           | 0.019%   | (3)  |

### Notes:

- The share appreciation rights were granted by China COSCO Holdings Company Limited ("China COSCO") (incorporated on 3rd March 2005), an associated corporation of the Company and a company listed on the Stock Exchange and the Shanghai Stock Exchange, in units with each unit representing one H share of China COSCO, on 16th December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no shares will be issued. The share appreciation rights can be exercisable at HK\$3.195 per unit at any time between 16th December 2007 and 15th December 2015.
- The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no shares will be issued. The share appreciation rights can be exercisable at HK\$3.588 per unit at any time between 5th October 2008 and 4th October 2016.
- The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 4th June 2007 pursuant to the Plan. Under the Plan, no shares will be issued. The share appreciation rights can be exercisable at HK\$9.540 per unit at any time between 4th June 2009 and 3rd June 2017.
- During the year, no share appreciation rights mentioned above were lapsed or cancelled.

Save as disclosed above, as at 31st December 2007, none of the directors or chief executives of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (excluding the Group) (collectively the "COSCO Group") (excluding the COSCO Logistics Group as defined below) carry on, among others, the businesses of shipping agency, freight forwarding and/or third party logistics and supporting services relating to the aforesaid services ("Logistics Businesses"), details of which are disclosed in the connected transactions circular issued by the Company dated 13th October 2003. The core of such businesses is unlikely to be in competition with the businesses carried on by COSCO Logistics Co., Ltd. ("COSCO Logistics"), its subsidiaries, jointly controlled entities and associates (collectively the "COSCO Logistics Group"). As at 31st December 2007, China COSCO, a subsidiary of COSCO and an intermediate holding company of the Company, and the Group has 51% and 49% equity interest in COSCO Logistics respectively.

As at 31st December 2007, Dr. WEI Jiafu, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. XU Lirong, Ms. SUN Yueying, Mr. XU Minjie and Dr. SUN Jiakang, all being directors of the Company, held directorships and/or senior management posts in the COSCO Group (excluding the COSCO Logistics Group) and/or other companies which have interests in container terminals ("Container Terminal Interests").

The Board is of the view that the Group is capable of carrying on its businesses independently from the Logistics Businesses and/or the Container Terminal Interests. When making decisions on the logistics business and/or the container terminal business of the Group, the relevant directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the best interests of the Group.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2007, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name                                      | Capacity  | Nature of interests                        | Number of ordinary shares/Percentage of total issued share capital |       |                 |   |
|---|---|--|--|-------|-----------------|---|
|   |   |  | Long positions   | %     | Short positions | % |
| COSCO Investments Limited                 | Beneficial owner  | Beneficial interest                        | 200,120,000  | 8.91  | -               | - |
| COSCO Pacific Investment Holdings Limited | Beneficial owner and interest of controlled corporation | Beneficial interest and corporate interest | 1,144,166,411  | 50.97 | -               | - |
| China COSCO Holdings Company Limited      | Interest of controlled corporation                      | Corporate interest                         | 1,144,166,411  | 50.97 | -               | - |
| China Ocean Shipping (Group) Company      | Interest of controlled corporation                      | Corporate interest                         | 1,144,166,411  | 50.97 | -               | - |

Note:

The 1,144,166,411 shares relate to the same batch of shares in the Company. COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment"). Accordingly, the 200,120,000 shares of the Company held by COSCO Investments are also included as part of COSCO Pacific Investment's interests in the Company. COSCO Pacific Investment is a wholly owned subsidiary of China COSCO and it itself holds 944,046,411 shares of the Company beneficially. Accordingly, COSCO Pacific Investment's interests in relation to the 1,144,166,411 shares of the Company are also recorded as China COSCO's interests in the Company. China Ocean Shipping (Group) Company ("COSCO") holds 53.57% interest of the issued share capital of China COSCO as at 31st December 2007, and accordingly, COSCO is deemed to have the interests of 1,144,166,411 shares of the Company held by COSCO Pacific Investment.

Save as disclosed above, as at 31st December 2007, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

### PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of the shares of the Company with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its Shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## MAJOR SUPPLIERS AND LESSEES

The percentage of the Group's container purchases and leasing income attributable to major suppliers and lessees are as follows:

|   |        |
|---|--------|
| Percentage of container purchases attributable to the Group's largest supplier                          | 11.14% |
| Percentage of container purchases attributable to the Group's five largest suppliers                    | 38.36% |
| Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO | 77.26% |
| Percentage of leasing income attributable to the Group's five largest lessees                           | 87.74% |

None of the directors or their associates has interests in any of the suppliers or lessees of the Group.

Three of the Group largest suppliers attribute 23.56% of container purchases of the Group. During the year ended 31st December 2007, the Group and COSCO have equity interest in China International Marine Containers (Group) Co., Ltd., the holding company of the aforesaid three suppliers of the Group.

Save as disclosed above, none of the shareholders (which to the knowledge of the directors owns more than 5% of the Company's shares) has interest in any of the suppliers and lessees of the Group.

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the year ended 31st December 2007.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 46 to 61 of this annual report.

## CONNECTED TRANSACTIONS

During the year, the following connected transactions/continuing connected transactions of the Company were entered into by the Group:

### (a) Connected transactions

#### ***Entering into the Shareholder's Loan Agreement with Qingdao Qianwan Container Terminal Co., Ltd.***

On 8th January 2007, COSCO Ports (Qianwan) Limited ("COSCO Ports Qianwan"), a wholly owned subsidiary of the Company, entered into a shareholder's loan agreement (the "Shareholder's Loan Agreement") as lender with Qingdao Qianwan Container Terminal Co., Ltd. ("QQCT") as borrower in relation to a loan facility ("Shareholder's Loan") of US\$12,820,513, which shall be interest-free and drawn on or before 26th January 2007. The Shareholder's Loan Agreement was made in pursuance to the amended and restated joint venture contract dated 21st July 2003 made between COSCO Ports Qianwan, PTS Holdings Limited ("PTS Holdings") and Qingdao Port (Group) Co., Ltd ("QPC") in relation to QQCT, whereby all three parties agreed to grant shareholders' loan to QQCT in proportion to their respective equity interests in QQCT.

Such Shareholder's Loan lasted for 11 months but QQCT could advance or postpone the repayment as per the resolutions of the board of directors of QQCT. As at 26th November 2007, QQCT had repaid the Shareholder's Loan to COSCO Ports Qianwan.

APM Terminals Invest Company Limited ("APMT"), which is a subsidiary of A.P. Møller-Maersk A/S ("APM"), has been a substantial shareholder of a subsidiary of the Company since 5th September 2006. Accordingly, APM and its subsidiaries are connected persons of the Company. APM holds approximately 40.82% interest in PTS Holdings, which has an equity interest of 49% in QQCT. Accordingly, QQCT is an associate of APM and, on 5th September 2006, became a connected person of the Company. Hence, the Shareholder's Loan constituted a connected transaction of the Company under the Listing Rules.

Provision of the Shareholder's Loan was proposed to be used to finance the facility usage fee of Phase III of the container terminal situated at Qingdao Qianwan, the People's Republic of China (the "PRC").

## REPORT OF THE DIRECTORS

### ***The disposal of shareholding interest in Chong Hing Bank Limited***

On 24th August 2007, the Company entered into a conditional sale and purchase agreement (the “Sale and Purchase Agreement”) with COSCO (Hong Kong) Group Limited (the “Purchaser”), pursuant to which the Company agreed to sell and the Purchaser agreed to purchase (a) the two ordinary shares of US\$1.00 each in the issued share capital of Bauhinia 97 Ltd. (“Bauhinia 97”), representing the entire issued share capital of Bauhinia 97 (“Sale Shares”); and (b) the rights of and benefits in the unsecured and non-interest bearing loan outstanding and owing from Bauhinia 97 to the Company and repayable on demand (“Sale Loan”) as at the date of completion of the sale and purchase of the Sale Shares and Sale Loan pursuant to and in accordance with the Sale and Purchase Agreement for an aggregate cash consideration of HK\$2,088 million (the “Disposal”).

Bauhinia 97 is an investment holding company and its sole asset is 87 million ordinary shares of HK\$0.50 each in the capital of Chong Hing Bank Limited (“Bank Shares”), representing a 20% shareholding interest in Chong Hing Bank Limited. The Consideration translates to an implied valuation of HK\$24.00 per Bank Share.

The Disposal constituted a major transaction for the Company under the Listing Rules. As the Purchaser is a wholly owned subsidiary of China Ocean Shipping (Group) Company, the ultimate controlling shareholder of the Company, the Purchaser is a connected person of the Company and the Disposal also constituted a connected transaction of the Company, subject to the approval of (and was approved by) the independent shareholders at the Special General Meeting held on 11th October 2007. The Disposal was completed on 26th November 2007.

The Disposal provided an opportunity for the Group to divest its non-core investment and the cash consideration from the Disposal will be used for investments in its core businesses.

### ***Acquisition of Berth Assets at Jiangdu Port***

On 16th October 2007, Yangzhou Yuanyang International Ports Co. Ltd. (the “Purchaser”) entered into an acquisition agreement (the “Acquisition Agreement”) with Yangzhou Port Jiangdu Port Area Co. Ltd. (揚州港江都港區有限公司) (“Yangzhou Jiangdu Ltd.”) and Jiangdu City Port Development Company (江都市港口開發公司) (“Jiangdu Port Development”) regarding the land use rights of two parcels of land (Portion A and Portion B), berth terminal projects, machinery facilities, buildings, ancillary works and other construction in progress in respect of berth no. 1 of the Jiangdu Port in the PRC, and the business related thereto (“Berth Assets”).

The consideration payable by the Purchaser to Yangzhou Jiangdu Ltd. and Jiangdu Port Development (the “Vendors”) pursuant to the Acquisition Agreement for acquiring the Berth Assets, which was funded from a capital injection by its shareholders on pro rata basis and/or from its internal resources and/or from external financing, was determined based on an independent qualified valuer’s valuation as at 31st May 2007 and comprised the following:

- (i) asset transfer consideration (comprising the consideration which amounts to RMB1,844,600, payable by the Purchaser for the transfer of Jiangdu Port Development’s share in the Berth Assets and the consideration which amounts to RMB47,135,000, payable by the Purchaser for the transfer of Yangzhou Jiangdu Ltd.’s share in the Berth Assets) payable to the Vendors, which amounts to RMB48,979,600;
- (ii) land premium in relation to the transfer of the land use rights of Portion A payable to Jiangdu Port Development, which amounts to RMB5,614,100; and
- (iii) land premium in relation to the transfer of the land use rights of Portion B payable to Jiangdu Port Development, which amounts to RMB980,000.

As the date of this report, the transfer has not been completed.

Yangzhou Jiangdu Ltd. is owned by Yangzhou Port of Jiangsu Province Group Co., Ltd. (江蘇省揚州港務集團有限公司) as to 51% (which owns 40% of the Purchaser). Being a subsidiary of a substantial shareholder of the Purchaser, Yangzhou Jiangdu Ltd. is therefore a connected person of the Company. Accordingly, the acquisition of the Berth Assets constituted a connected transaction of the Company under the Listing Rules.

Investment in such berth is expected to expand the Company's participation and involvement in the development of Yangzhou Port region in order to benefit from its economic growth, in turn boosting the Group's competitiveness and market position in the Yangzhou Port region and enlarge its relevant market share in terminal business.

#### **Development of berth at Zhangjiagang Port**

On 4th December 2007, Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (the "Joint Venture"), a sino-foreign equity joint venture established in the PRC and owned by a wholly owned subsidiary of the Company and Zhangjiagang Port Group Co. Ltd. (張家港港務集團有限公司) ("Zhangjiagang Port Group") as to 51% and 49% respectively, entered into an agreement (the "Agreement") with Zhangjiagang Port Group Co. Ltd. Port Industry Branch (張家港港務集團有限公司港口實業分公司) (the "Contractor") in relation to the depot reconstruction project of berth no. 17 of Zhangjiagang Port in the PRC (the "Development").

The Contractor is engaged by the Joint Venture to carry out the Development. The construction period is expected to last for six months.

In consideration of the Contractor providing services in relation to the Development, the Joint Venture will pay a service fee up to a maximum of RMB38,000,000. Expenses on material will be reimbursed to the Contractor by the Joint Venture on an as incurred basis up to a maximum of RMB58,000,000.

As the Contractor is a wholly owned subsidiary of Zhangjiagang Port Group, the Contractor is therefore a connected person of the Company. Accordingly, the Agreement constituted a connected transaction of the Company.

The Development is required due to the increase in the volume of containers handled by the Joint Venture and for meeting the higher demand on the area of the container yard.

#### **(b) Continuing connected transactions**

##### **Rental of office premises**

On 27th March 2006, COSCO Pacific Management as tenant entered into two tenancy agreements with Wing Thye Holdings Limited ("Wing Thye") as landlord in respect of the leasing of certain office premises situated at 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong ("COSCO Tower") (the "4901 and 4902A Tenancy Agreement" and the "4903 Tenancy Agreement", collectively the "Tenancy Agreements").

Pursuant to the 4901 and 4902A Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye portions of the premises known as Unit 4901 and Unit 4902A situate at COSCO Tower ("Units 4901 and 4902A") for a term of three years commencing with retrospective effect from 29th November 2005 at a monthly rental of HK\$420,000, exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye is HK\$50,746.60. The maximum aggregate annual value of the rental and the management fees is HK\$5,648,959.20.

Pursuant to the 4903 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4903 situate at COSCO Tower ("Unit 4903") for a term of two years ten months and thirteen days commencing with retrospective effect from 16th January 2006 at a monthly rental of HK\$150,000 (including rent-free period from 16th January 2006 to 15th March 2006 (both days inclusive)) exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye is HK\$18,170. The maximum aggregate annual value of the rental and the management fees is HK\$2,018,040.

The Company intended to continue to occupy Units 4901 and 4902A and Unit 4903 on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong. In negotiating the rentals under the Tenancy Agreements, the directors of the Company made reference to the professional opinion given by DTZ Debenham Tie Leung Limited, an independent professional valuer engaged by COSCO Pacific Management and Wing Thye, that the monthly rental agreed for Units 4901 and 4902A and the monthly rental agreed for Unit 4903 were at market levels and were fair and reasonable.

## REPORT OF THE DIRECTORS

Wing Thye is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"). COSCO Pacific Management is a wholly owned subsidiary of the Company. COSCO is a controlling shareholder of both the Company and COSCO Hong Kong. Accordingly, COSCO, COSCO Hong Kong and Wing Thye are all connected persons of the Company. The Tenancy Agreements and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

### **Container related services, shipping related services and short term container leasing transactions**

COSCO is the ultimate controlling shareholder of the Company. COSCO Container Lines Company Limited ("COSCON") is a subsidiary of COSCO. Accordingly, COSCO and COSCON and their respective associates (excluding the Group) are connected persons of the Company. APMT, which is a subsidiary of APM, has been a substantial shareholder of a subsidiary of the Company since 5th September 2006. Entities trading under the names of Maersk Line, Safmarine, MCC or any other future names with majority ownership by APM (collectively the "Line") are majority-owned by APM and are therefore associates of APMT. Accordingly, the Line is a connected person of the Company. Each of the Master Agreements referred to below and the transactions contemplated thereunder constituted continuing connected transactions (the "Continuing Connected Transactions") for the purpose of the Listing Rules and are subject to the reporting, announcement and (except for the short term container leasing transactions referred to below, the "Short Term Leasing Transactions") independent shareholders approval requirements set out in Chapter 14A of the Listing Rules. The Continuing Connected Transactions (other than the Short Term Leasing Transactions) for the years 2007 to 2009 were approved by the independent shareholders at the Special General Meeting held on 17th May 2007.

- (1) The Shipping Services Master Agreement entered into between COSCO, COSCON and COSCO Ports (Holdings) Limited ("COSCO Ports") on 23rd March 2007, a wholly owned subsidiary of the Company, in respect of provision of the shipping related services provided by COSCO Ports and its subsidiaries to COSCO and COSCON and their respective associates (excluding the Group but including COSCON) for a term of three years from 1st January 2007 to 31st December 2009 at rates no less favourable than that at which COSCO Ports and its subsidiaries charge independent third parties for the relevant services. The annual caps of the shipping related services transactions for the years ended/ending 31st December 2007, 2008 and 2009 are US\$34,929,000, US\$51,272,000 and US\$52,629,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2007 was US\$13,915,000.
- (2) The Shipping Services Master Agreement entered into between COSCO Ports and the Line on 23rd March 2007, in respect of provision of the shipping related services provided by COSCO Ports and its subsidiaries to the Line for a term of three years from 1st January 2007 to 31st December 2009 on normal commercial terms. The annual caps of the shipping related services transactions for the years ended/ending 31st December 2007, 2008 and 2009 are US\$15,000,000, US\$34,000,000 and US\$46,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2007 was US\$5,008,000.
- (3) The Container Services Master Agreement (as amended on 23rd March 2007) entered into between COSCO, COSCON and Plangreat Limited ("Plangreat") commencing from 1st January 2005 and which was effectively renewed from 23rd March 2007 to expire on 31st December 2009, a wholly owned subsidiary of the Company, in respect of provision of the container related services by Plangreat and its subsidiaries to COSCO, COSCON and their respective associates (excluding the Group but including COSCON) at rates no less favourable to Plangreat and its subsidiaries than that at which Plangreat and its subsidiaries charge independent third parties for the relevant services. The annual cap of the container related services transactions for each of the years ended/ending 31st December 2007, 2008 and 2009 is US\$7,501,000. The total amount of the aforesaid transactions for the year ended 31st December 2007 was US\$6,625,000.
- (4) The Short Term Container Leasing Master Agreement entered into between COSCO, COSCON and Florens Container Holdings Limited ("Florens"), a wholly owned subsidiary of the Company, in respect of provision of the short term container leases (container leasing for a term less than 10 years) granted by Florens and its subsidiaries to COSCO and its associates (excluding the Group but including COSCON) for a term of three years from 1st January 2005 to 31st December 2007 at rates no less favourable than that at which Florens and its subsidiaries charge independent third parties for the relevant leases. The annual caps of the short term container leasing transactions for the years ended 31st December 2005, 2006 and 2007 are US\$2,700,000, US\$3,100,000 and US\$3,500,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2007 was US\$33,000.

**Logistics services provided by Yangzhou Ports Modern Logistics Centre**

Yangzhou Yuanyang International Ports Co. Ltd (“Yangzhou Yuanyang”), a subsidiary of the Company, entered into Ancillary Loading and Unloading Transportation Services Agreements with Yangzhou Ports Modern Logistics Centre (“Yangzhou Ports Modern Logistics”), a wholly owned subsidiary of Yangzhou Port of Jiangsu Province Group Co., Ltd. (江蘇省揚州港務集團有限公司) which holds 40% equity interest in Yangzhou Yuanyang, on 28th February 2004 and 1st January 2005 in respect of the provision of logistics services by Yangzhou Ports Modern Logistics to Yangzhou Yuanyang for the periods from 1st March 2004 to 28th February 2007 (subsequently superseded by the agreement dated 1st January 2005) and 1st January 2005 to 28th February 2007 respectively. The services fees charged by Yangzhou Ports Modern Logistics were at rates no less favourable to Yangzhou Yuanyang than that at which independent third parties charged Yangzhou Yuanyang for the relevant services. The total amount of the aforesaid transactions for the years ended 31st December 2004, 2005 and 2006 were US\$2,451,038, US\$3,861,925 and US\$4,452,972 respectively.

On 20th April 2007, Yangzhou Yuanyang entered into a new Ancillary Loading and Unloading Transportation Services Agreement with Yangzhou Ports Modern Logistics in respect of the provision of logistics services by Yangzhou Ports Modern Logistics to Yangzhou Yuanyang for the period from 1st March 2007 to 31st December 2009. The services fees charged by Yangzhou Ports Modern Logistics were payable monthly by reference to the volume of work handled by Yangzhou Ports Modern Logistics. The annual caps of the aforesaid transactions for the years ended/ending 31st December 2007, 2008 and 2009 are US\$3,735,000, US\$4,109,000 and US\$4,518,000 respectively.

The total amount of the aforesaid transactions for the year ended 31st December 2007 was US\$2,474,000.

As Yangzhou Ports Modern Logistics is a connected person of the Company by virtue of its being a subsidiary of a substantial shareholder of Yangzhou Yuanyang, its provision of logistics services to Yangzhou Yuanyang constituted continuing connected transactions of the Company.

**Shipping related services provided by Yangzhou Yuanyang**

Yangzhou Yuanyang has been providing shipping related services to COSCO and COSCON and their respective associates (excluding the Group) since 2004. The service fees charged by Yangzhou Yuanyang were at rates no less favourable to Yangzhou Yuanyang than that at which Yangzhou Yuanyang charged independent their parties for the relevant services. The total amounts of the aforesaid transactions for the years ended 31st December 2004, 2005, 2006 and the two months ended 28th February 2007 were US\$315,012, US\$437,460, US\$653,642 and US\$130,962 respectively. Such amount for the two months ended 28th February 2007 formed part of the total amount of the shipping related services transactions for the year ended 31st December 2007 under the Shipping Services Master Agreement entered into between COSCO, COSCON and COSCO Ports referred to above.

As COSCO and COSCON and their respective associates (excluding the Group) are connected persons of the Company, the provision of shipping related services by Yangzhou Yuanyang to them constituted continuing connected transactions of the Company.

**Shipping related services provided by Quan Zhou Pacific Container Terminal Co., Ltd.**

Quan Zhou Pacific Container Terminal Co., Ltd. (“Quanzhou Pacific”), a subsidiary of the Company, has been providing shipping related services to COSCO and COSCON and their respective associates (excluding the Group) since September 2006. The service fees charged by Quanzhou Pacific were at rates no less favourable to Quanzhou Pacific than that at which Quanzhou Pacific charged independent third parties for the relevant services. The total amount of the aforesaid transactions for the years ended 31st December 2006 was US\$559,000. The aforesaid transactions for the year ended 31st December 2007 formed part of the transactions for the year ended 31st December 2007 under the Shipping Services Master Agreement entered into between COSCO, COSCON and COSCO Ports referred to above.

As COSCO and COSCON and their respective associates (excluding the Group) are connected persons of the Company, the provision of shipping related services by Quanzhou Pacific to them constituted continuing connected transactions of the Company.

## REPORT OF THE DIRECTORS

### **Long term container leasing transactions (with waiver granted by the Stock Exchange)**

During the year, long term container leasing transactions were entered into between COSCO Group and the Group in respect of the provision of long term container leases by the Group to COSCO Group to which the Stock Exchange had, subject to certain conditions, granted waiver dated 14th December 1994 to the Company from strict compliance with the requirements stipulated in the then Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. The total consideration of the aforesaid transactions for the year ended 31st December 2007 amounted to US\$140,099,000. In the opinion of the directors of the Company, the aforesaid transactions were conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies.

### **Opinion from the independent non-executive directors on the continuing connected transactions**

Pursuant to the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and opined that:

- (i) the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies and were fair and reasonable so far as the shareholders of the Company were concerned; and
- (ii) the rental of the office premises transactions, container related service transactions, shipping related service transactions, short term container leasing transactions and logistics service transactions were:
  - entered into in the ordinary and usual course of the Group's businesses;
  - entered into on terms no less favourable to the Group than terms available from/to independent third parties; and
  - entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### **Report from the auditor on the continuing connected transactions**

For the purposes of the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.38 of the Listing Rules in relation to the other continuing connected transactions, the Board engaged the auditor of the Company to perform certain agreed-upon procedures on the above continuing connected transactions as identified by the management for the year ended 31st December 2007 (the "Relevant Year") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and the auditor reported that:

- (i) the long term container leasing transactions for the Relevant Year had been conducted in the ordinary course of business of the Group and by reference to, if applicable, the average of the available leasing rates quoted from four of the top ten independent container leasing companies; and
- (ii) the rental of the office premises transactions, container related service transactions, shipping related service transactions, short term container leasing transactions and logistics service transactions for the Relevant Year:
  - had been approved by the Board;
  - had been conducted in accordance with the pricing policies of the Group, if applicable (for the samples selected);
  - had been entered into in accordance with the terms of the relevant agreements governing the other continuing connected transactions (for the samples selected); and
  - had not exceeded the respective annual caps (as revised where applicable) as set out in the Company's announcements published in that regard.

## DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2007 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

|                         | US\$'000  |
|-------------------------|-----------|
| Non-current assets      | 928,735   |
| Current assets          | 106,615   |
| Current liabilities     | (212,875) |
| Non-current liabilities | (667,067) |
| Net assets              | 155,408   |
| Share capital           | 82,222    |
| Reserves                | (644)     |
| Minority interest       | 73,830    |
| Capital and reserves    | 155,408   |

As at 31st December 2007, the Group's attributable interests in these affiliated companies amounted to US\$166,692,000.

### AUDIT COMMITTEE

The Company has an audit committee consisting of four independent non-executive directors. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its financial statements and liaises on behalf of the Board with external auditor and the Group's internal auditor. During the year, the committee members met regularly with management, external auditor and the Group's internal auditor and reviewed the internal and external audit reports and the interim and annual consolidated financial statements of the Group.

### AUDITOR

The consolidated financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

#### **XU Minjie**

*Vice Chairman and Managing Director*

Hong Kong, 7th April 2008